

Message Text

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44

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 SAM-01 PM-07 SCI-06 IO-14 DRC-01 NEA-11 /231 W

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R 090920Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0333

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY STOCKHOLM

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

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E.O. LL652: N/A

TAGS: EFIN, ECON, ENRG, GW

SUBJECT: T/IEP: FEBRUARY 11 FOREIGN MINISTERS MEETING:

GERMAN ECONOMY

REF: (A) BONN 1063; (B) BONN A-31; (C) BONN 1771;

(D) STATE 7324

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L. SUMMARY: THE IFO ECONOMIC RESEARCH INSTITUTE HAS PRODUCED A NEW FORECAST FOR L974 -- SINCE THOSE REPORTED IN REFTELS. IFO PREDICTS REAL GNP WILL GROW BY AROUND 1.5 PERCENT OVER 1973, AND THAT THE UNEMPLOYMENT RATE WILL REACH ONLY 2.2 PERCENT. FURTHER, IFO FORECASTS THAT RAPID INCREASES IN CRUDE OIL PRICES WILL MEAN THAT THE RATE OF INFLATION (COST-OF-LIVING) WILL IN NO CASE BE LESS THAN 8 PERCENT. GOVERNMENT ACTION TO RELAX ANTI-INFLATIONARY POLICIES STILL IN EFFECT WOULD NOT BE LIKELY TO INCREASE THE RATE OF REAL GROWTH. END SUMMARY.

2. THE IFO ECONOMIC RESEARCH INSTITUTE (MUNICH) NOW PREDICTS THAT THE GOVERNMENT'S ACTION IN RELAXING ANTI-INFLATIONARY POLICIES (IN DECEMBER) WILL BE SUFFICIENT TO PREVENT AN "UNDESIRABLY" RAPID RATE OF SLOWDOWN OF ECONOMIC ACTIVITY. IT PREDICTS REAL GNP WILL GROW BY AROUND 1.5 PERCENT IN L974 AND THAT THE RATE OF UNEMPLOYMENT WILL AVERAGE 2.2PERCENT.

3. THESE CONCLUSIONS ARE BASED ON A WIDE NUMBER OF ECONOMIC INDICATORS WHICH ARE SURVEYED BY IFO ON A REGULAR BASIS. IN ADDITION TO THESE INDICATORS, THE INSTITUTE'S SURVEY OF BUSINESS SENTIMENT SHOWS THAT ATTITUDES TOWARD THE NEXT SIX MONTHS DID NOT WORSEN IN DECEMBER. THE CONSTRUCTION INDUSTRY IS STILL FEELING THE PINCH MORE THAN ANY OTHER AREA OF THE ECONOMY, BUT THAT FACT WAS PARTIALLY DUE TO WORSE-THAN-USUAL WEATHER IN DECEMBER. EVEN IN CONSTRUCTION INCOMING ORDERS, WHICH SANK TO AN EXTREMELY LOW LEVEL IN PREVIOUS MONTHS, BEGAN TO RECOVER IN DECEMBER.

4. AT THE SAME TIME, IFO IS PREDICTING THAT THE COST-OF-LIVING INDEX IN L974 WILL BE A MINIMUM OF 8 PERCENT ABOVE L973. BUSINESSMEN GENERALLY REPORT PLANS TO RAISE PRICES EVEN MORE RAPIDLY IN THE NEXT SIX MONTHS THAN THEY DID IN THE PRECEDING SIX MONTHS. THE INSTITUTE ALSO MAINTAINS THAT ANY EFFORT TO STIMULATE THE ECONOMY (BEYOND ACTIONS TAKEN IN DECEMBER) WILL DRIVE THE RATE OF INFLATION EVEN FURTHER UPWARDS, BUT LIMITED OFFICIAL USE

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WILL NOT MATERIALLY RAISE THE RATE OF REAL GROWTH OR REDUCE UNEMPLOYMENT. IN THAT CASE, RESTRICTIONS ON OIL SUPPLIES WOULD INHIBIT FASTER GROWTH.

5. IFO CONCURS WITH OTHER ANALYSTS THAT OIL SUPPLIES APPEAR TO BE SUFFICIENT TO MEET DEMAND AT THE CURRENTLY PROJECTED RATE OF GROWTH. THEY ANTICIPATE SERIOUS INFLATIONARY PRESSURE, BUT DO NOT BELIEVE THAT THE MASSIVE INFLATIONARY IMPACT OF OIL PRICE INCREASES

WILL SERIOUSLY DISRUPT THE ECONOMY.

6. THIS FORECAST IS IN GENERAL AGREEMENT WITH THE
EMBASSY'S ASSESSMENT OF THE CURRENT TREND (REF. A)
AND WITH THE GOVERNMENT'S CURRENT FORECAST (REF. B).
HILLENBRAND

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